



## NC 2010 LEGISLATIVE SESSION BUDGET AND FISCAL POLICY HIGHLIGHTS

Fiscal Brief

August 20, 2010

### Executive Summary

On June 30, 2010, the General Assembly ratified Senate Bill 897, the Appropriations Act for FY 2010-2011. The Appropriations Act (S.L. 2010-31) appropriates \$19.0 billion in General Fund availability and addresses budgetary gaps caused by \$787.9 million in revenue shortfalls, \$430.6 million in unanticipated costs in the Medicaid program, and \$86.6 million from additional enrollment in community colleges and universities. Of the adjustments made by the General Assembly to balance the budget, the most significant was the use of \$562.5 million in additional federal American Reinvestment and Recovery Act (ARRA) funds for Medicaid assistance. Of this amount, \$518.9 million from the Federal Medicaid Assistance Program (FMAP) is uncertain; the Appropriations Act includes a contingency plan to balance the budget in the event FMAP funds are not forthcoming.

This brief summarizes the major budgetary actions of the General Assembly. More specifically, the brief highlights:

- Revenues and revenue adjustments
- The use of Federal ARRA funds
- Budget reductions
- The education lottery
- Budget increases
- Legislative actions related to federal healthcare reform
- The structural budget deficit in future years

The appendix to this brief provides details on the actions of the General Assembly in the areas of revenues and appropriations. The appropriations section of the appendix is organized by subcommittee area.

### Availability for FY 2010-11

#### Revenues

When the General Assembly convened on May 12, 2010, it faced a lower revenue forecast and the loss of the State estate tax. These two factors resulted in a \$787.9 million reduction in General Fund availability for FY 2010-11, from \$19.6 billion to \$18.8 billion, a reduction of 4.0%.

The Fiscal Research Division and the Office of State Budget and Management revised their April 2010 consensus revenue forecast for FY 2010-11 downward by \$702.9 million. The two major factors behind the lower revenue forecast are: 1) a lower revenue base from which revenue can grow, the result of lower than expected sales tax and personal income tax revenues in FY 2009-10; and 2) a downgraded economic forecast for the nation and the State's economy. The result of these two factors is that baseline revenue collections (removing tax law changes) for FY 2009-10 were lowered to a 4.5% year-over-year decline compared to a 2.2% decline forecast in May 2009, and for FY 2010-11, the forecast downgraded growth from 3.3% to 2.7%.

In addition to the lower revenue forecast, the State will lose another \$85.0 million in Estate Tax revenues. The North Carolina Estate Tax is tied to the federal internal revenue code referencing the federal estate tax, which expired January 1, 2010 (it is scheduled to be reinstated in 2011). In the absence of the federal estate tax no State estate tax will be collected.